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Governance and Control Practices in Multinational Enterprises

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Abstract - In the aftermath of the 2007–2009 global financial crisis, corporations worldwide including those based in India shifted their focus primarily towards survival and risk mitigation. As economic stability gradually returned, attention realigned with the effective management of subsidiaries, particularly in the case of Indian multinational corporations (MNCs) operating in diverse international markets. Traditionally, controlling practices in India have been influenced by global frameworks, including the widely discussed "German model of controlling," often described as the "management of management." This model, occasionally likened to the human immune system in academic discourse, tends to emphasize risk detection and response. However, such an analogy narrows the scope of controlling by overlooking the proactive and strategic dimensions, particularly in opportunity management. This paper seeks to broaden the conceptual understanding of controlling by drawing an analogy with the human nervous system rather than the immune system. Employing methods of analysis and synthesis within the frameworks of Grounded Theory and the Evolutionary Theory of Multinational Corporations, this study aims to extend the traditional concept of controlling to incorporate functions such as reverse knowledge transfer, agility in decision-making, and the development of dynamic performance metrics. The key contribution of this study lies in identifying the existing gaps in conventional controlling systems and proposing an evolved framework more suited to the complexities faced by Indian MNCs in a globalized environment. This includes indirect metrics for assessing controlling effectiveness, thereby offering a forward-looking approach to management science.

Keywords: controlling concept, effectiveness of controlling, Indian Multinational Corporations (MNCs), reverse knowledge transfer, management innovation

1. INTRODUCTION

During the 1990s, discussions emerged in India—as in other global contexts—highlighting controlling as an essential element of effective company management. Over time, the decomposition and structure of controlling systems within Indian enterprises became increasingly complex with each stage of organizational growth and transformation (Pavlovska, Kuzmina-Merlino, 2013).

The recognition of external environmental factors as critical inputs into the controlling framework was first brought into broader attention by Byrne and Kavanagh in 1994. Although their work primarily focused on Western market expansions, the concept has since gained relevance for Indian Multinational Corporations (MNCs) operating across diverse socio-economic and regulatory environments. Their study introduced the use of Environmental Performance Indicators (EPIs), which were categorized into two integrated systems: accounting-based measures (such as prevention costs, environmental investments, operational environmental costs, and contingent liabilities) and non-financial indicators (like physical metrics and regulatory compliance levels). This shift in perspective exemplifies how internationalization of Indian companies demands a broader, forward-looking approach to controlling—moving beyond traditional local practices. The rapid evolution of Indian businesses into globally competitive MNCs necessitates a new managerial paradigm rooted in adaptability and strategic foresight.To navigate the complexities of such dynamic systems, one key objective is the ability to test strategic initiatives for their long-term impact before implementation (Kunc and Morecroft, 2006). This underscores the critical need to develop a robust and unified controlling model, aligned with the unique development challenges and global aspirations of Indian corporations. Such a model should integrate financial, environmental, and strategic dimensions to drive sustainable and informed decision-making.

2. METHODOLOGY AND DATA

The purpose of this papers is to present a qualitative research based on "The Firm and The Evolutionary Theory of the Multinational Corporation" and on "Business Network Theory" as contextual boundary of this study. "The Grounded Theory" was taken as main methodological approach (Strauss, Corbin, 2014). The Grounded theory is the methodological approach for context specific inductive theory building. Beside of this, analytical research of Controlling definition was conducted. TRIZ and System Evolution Theory were used as main inductive tool set. Various authors have explained the term “Controlling” in a variety of ways. Therefore, every scientific study faced definition issues of "control/controlling". This was the starting point of current investigation, which as outcome gives the definition of Controlling in International Business Context. The evolutional model of investigation as well is proved (Pavlovska, Kuzmina-Merlino 2014). If required time for hypothesis testing is comparable with tested system changes that affect testing or connected variables (in other words – experiment cannot be repeated) this method of proofing could not be accepted as relevant. The only way in this case for acceptable modelling is to create an evolutional model of the system. Any accurately constructed evolutional model will represent not only the system but also highlights possible future states of the system. As result of this pilot research a new concept of Controlling Framework in Multinational Corporation was provided. According to Ground Theory this concept testing should be conducted into further steps of research, and as result could give theoretical framework (Imenda, 2014).

Main research questions are:

1. Describe the evolutional model of Controlling based on multi factor analyse.
2. Define and check the main assumptions that are baseman of current Controlling concept. Check them on validity and redefine if necessary.
3. Describe a new framework for Controlling in Multinational Corporations.

As an additional result this validates future research hypothesis and provides background for quantitative testing and expert reviews. In order to conduct this type of research latest published evidence was analysed. Research design includes GAP analysis of the existing scope as well as definition analysis due to the absence of common understanding of the term “Controlling”. For these cases a classical literature research approach was used. As the second step MNCs approach was discussed. Starting from the fourth chapter controlling analysis was presented only from MNCs expectation point of view. This study is comparing two models US and German but later discussion is focused only on the German Controlling model. As an additional limitation factor should be mentioned company size and profile only MNCs but not SME. All limitations mentioned above introduce a concept and assumptions with direct focus on MNCs.

3. CONTROLLING DEFINITION AND EXISTING MODELS IN THE INDIAN CONTEXT

The history of Controlling as a business function in India is relatively recent but has undergone a rapid evolution, particularly with the rise of Indian multinational corporations (MNCs) and the globalization of Indian enterprises. While earlier management models in India primarily relied on traditional accounting and financial control practices, modern controlling frameworks have grown significantly in complexity and scope. These have increasingly drawn influence from international paradigms, particularly the Anglo-Saxon (U.S./U.K.) and German models of controlling each with distinct cultural, structural, and functional orientations. Interestingly, the term “Controlling”, though derived from the English word “control,” has become more prominently associated with the German management system, which has found strong conceptual acceptance among Indian scholars and corporate practitioners aiming to institutionalize advanced control mechanisms within diversified, global operations. In India, the term is often understood more broadly than the English equivalent “Management Control System.” Cultural, organizational, and behavioral distinctions significantly shape the interpretation and application of this concept within Indian business environments. According to Schultz (2012), in the German context (which many Indian companies now study and adapt), "Controlling" is not limited to inspection or auditing. It embodies a more integrated function supporting planning, coordination, strategic alignment, and operational feedback loops, all of which are crucial in managing Indian companies with dispersed global units. In this sense, controlling goes beyond monitoring it includes enabling management with timely information and tools for proactive decision-making.

A foundational theoretical contribution was made by Albrecht Deyhle (1984), who identified three key elements of controlling:

Target-oriented control,

Controller–manager collaboration, and

The blend of analytical tools with soft management skills.

This theoretical foundation has found increasing relevance among Indian corporate leaders and management educators. As Indian companies adopt complex international operations, these principles are being recognized as vital for maintaining performance, managing risk, and ensuring agility in volatile markets.

However, practical implementation in India has often outpaced theoretical development, resulting in fragmented understanding and application across organizations. In recent years, Indian corporations have expanded the scope of controlling to include domains such as strategy execution, enterprise risk management, sustainability, and early warning systems. The role of the controller has also transitioned from a passive financial monitor to a proactive strategic partner, particularly within large conglomerates and global IT firms. To analyze this evolution more systematically in the Indian context, we propose to examine four dimensions of controlling: Scope of Controlling Activities from budgeting to strategic alignment. Future Orientation early warning systems, forecasting, scenario analysis Role of the Controller from reporting to decision support and strategic co-leadership. Institutional Position of Controlling – integration within corporate governance and decision hierarchies

This evolution in India must be assessed across two key vectors:

Historical timeline, i.e., from liberalization in the 1990s to the present rise of Indian MNCs, and

Geographical influence, i.e., the adaptation of U.S./Anglo-Saxon control philosophies versus

Germanic models.

While the U.S. model emphasizes financial reporting, investor relations, and performance-based control, the German approach—which has gained traction in Indian manufacturing and engineering sectors—focuses on internal alignment, controller involvement in planning, and long-term value creation.

The key differences in scope, structure, and application between these models, as observed in Indian companies, are summarized in Table 1 (developed by the authors based on Jackson (1949), Falko (2008), Vollmuth (2007), and The Dictionary for Controllers (2010)).

Table 1

Controlling model comparison USA vs India

	USA model	Indian Model
Scope	Emphasis on financial control, compliance, and reporting to stakeholders.	Traditionally finance-centric, but evolving to support strategic planning and operational alignment in large firms.
Future orientation	Focuses on historical data analysis to explain past outcomes.	Increasing use of forecasting, data analytics, and early warning systems in progressive organizations.
Controller's role	Often plays the role of an auditor or monitor, ensuring financial accuracy.	In evolving firms, controllers are becoming strategic advisors, aiding business planning and decision-making.
Place in the organization	Usually positioned as an external oversight function in large enterprises.	Typically part of the Finance or Strategy team; in MNCs, integrated with business units for internal control and performance tracking

While the U.S. model emphasizes financial compliance, reporting, and external stakeholder alignment, it often lacks the integrated, proactive, and future-oriented approach that the model provides. In the Indian corporate context, especially among large business groups and global players, there's an increasing recognition of the limitations of traditional control systems, which have been heavily influenced by the U.S.-Anglo-Saxon model. Indian MNCs are now gradually transitioning toward more strategic, planning-driven controlling frameworks, similar to the German approach. This shift is critical to support rapid expansion, cross-border operations, and alignment with sustainability goals. The US model has not only evolved within U.S. but has also been adapted and localized in countries such as China, Japan, Russia, and Bulgaria, offering evidence of its global applicability and flexibility. Indian firms too are at a transitional phase, where they require models that go beyond compliance to support decision-making, strategic forecasting, and integrated risk management. Each phase in the German model's development has expanded rather than replaced its previous functions, leading to greater scope and complexity. This layered evolution where each new challenge adds functions rather than changes the foundation has significant implications for resource allocation, organizational design, and performance measurement in Indian firms aiming for global standards.

Table 2

Scope evolution of controlling development

Time period	Scope of controlling	Prototype	Main authors
1930-1970s	Finance controlling, mostly focused on cost	Simple sensor	Deyhle, A., Mann, R., Mayer, E., Vollmuth, H.J., Scown, T
1970-1980s	Support information system, reporting, single point of trust for management	Simple automat	Reichmann, Th., Preishler,P., Schaffer U.
1990s	Planning and control of budget	Simple toolbox	Hann, D., Horvath,P., Schneider,D.
	Coordination function to achieve goals and pre-defined targets	Communication center	Küpper, H.-U., Bendak, J., Schmidt, A., Weber J.
	Company management system – from planning and budgeting to correcting action implementation after deviation analysis. KPIs and business processes	Negative feedback, Homeostasis	Steinmann, H., Kustermann, B., Schreyogg, G., Newman, WH., Russell, KA., Siegel, GH., Kulesza, CS.
2000s-2014	Decision making system, knowledge management system	Immune system (react only on problems)	Steinmann, H., Scherer, AG., Ortmann, G., Sydow, J., Windeler, A., Becker, A.
On demand	Management system which provides flexible planning for dynamic targets, and provide pro-actions for unpredictable events	Nervous system	Defined by the authors

As shown from the previous table the USA concept of Controlling was started in 1930s and has no significant development till 1990s, later on globalization enforces transformation from local companies' level into corporations. This, as a new force, pushes a new cycle of controlling development. This moment is the starting point of export of the US Controlling Model into other countries.

4. NEW MODEL DEVELOPMENT

Recognizing Indian Multinational Corporations (MNCs) as complex, interconnected systems with multiple layers of interactions and dynamic decision-making environments, any effective controlling mechanism must adopt a multifactorial approach. In such systems, no single factor can be deemed dominant; rather, it is the combined, integrated influence of multiple control dimensions that provides an accurate, real-time picture of business performance. A critical gap identified in currently applied controlling models, particularly within Indian MNCs, is the lack of adaptability to rapidly changing environments including regulatory shifts, market volatility, geopolitical uncertainties, and digital disruption. This observation, grounded in the earlier analysis, signals a need for a paradigm shift in controlling frameworks.

This paper proposes a new conceptual prototype for controlling, drawing a parallel with the human nervous system. Unlike traditional control models that respond reactively to threats, the nervous system metaphor emphasizes proactive sensing, opportunity recognition, continuous learning, and self-adjustment—functions increasingly crucial for Indian corporations operating globally. To support this theoretical shift, the following table presents an evolutionary analysis of controlling functions and information sources, contextualized for Indian industry.

It outlines:

- A historical sequence of controlling development
- The core definition or concept at each stage
- The additional functions and scope added as businesses became more complex

The company type or focus area most suited for each model (e.g., SMEs, domestic firms, large MNCs, digital-first organizations). Designed to serve Indian MNCs operating in high-growth, high-uncertainty sectors such as IT services, pharmaceuticals, renewable energy, and digital platforms.

Earlier-stage models may lack the functionality to support these sectors, while overly complex global models can overwhelm operations without delivering added value.

Table 3

Evolution of the Controlling concept through prism of a company profile

	Controlling definition (core idea)	Detailed scope of controlling and information sources	Main focus and company profile
1	System of cost accounting and reporting	Main Functions: Establishment of cost accounting and internal reporting methods. Sources: Basic accounting data (financial and managerial).	Small-scale Indian manufacturing firms, traditional industries operating in localized markets.
2	Informational support for budgeting, funds requirements, reports and historical data analysis.	Main Functions: Budget creation, fund requirement projections, cash flow forecasts, basic planning. Sources: Functional process inputs and financial statements.	Focused on individual product portfolio, small companies, in the middle size market
3	Split between strategic and operational controlling. Different level of planning.	Main Functions: Long-term vs short-term goal setting; differentiated planning levels. Sources: Strategy documents, actual vs planned functional area reports.	R&D-oriented mid-sized Indian enterprises, IT firms, pharma startups with product pipelines
4	Coordination function to achieve goals and pre-defined targets	Main Functions: Synchronizing internal departments to meet marketing and operational goals. Sources: Departmental MIS and structured internal reports.	Mid-to-large Indian firms in competitive sectors like FMCG, retail, auto components in metro cities.
5	System of management with several sub-systems of planning, budgeting, funding, as well control target fulfilment and correction action if required.	Main Functions: KPIs across departments, deviation tracking, dynamic corrections. Sources: KPI dashboards, variance analysis reports.	Indian conglomerates, regional holding companies, corporates with multiple subsidiaries.
6	Decision making support system, knowledge transfer.	Main Functions: Enabling data-driven decision-making, intra-company learning, forecasting. Sources: Enterprise knowledge management systems.	Indian MNCs like Infosys, TCS, Dr. Reddy's, Mahindra Group – hierarchical yet knowledge-intensive.
7	Management of company management	Main Functions: Adaptive strategic planning, decision effectiveness, corporate agility. Sources: ERP, CRM, MMP, ESG platforms, real-time data sources, external environment inputs	Digitally driven Indian MNCs with global operations, sustainability agenda, and networked governance (e.g., Reliance, Wipro, Tata Sons, Adani)

Evolution periods were described according to Table 2.

5. RESULTS AND DISCUSSION

In today's dynamic business environment, Controlling can be defined as the strategic management of a company's future, aligning the overall development of an organization with that of its subsystems, while remaining anchored to its mission and long-term strategic goals (Drury, 2007). In the Indian context, where businesses are rapidly transitioning from local players to globally competitive enterprises, the role of controlling has become increasingly significant not just for compliance, but as a proactive driver of growth and sustainability. This understanding places Controlling as a core sub-system within the company, evolving alongside the company's complexity and global footprint. In an environment marked by regulatory dynamism, economic uncertainty, and global market competition, internal planning alone is no longer sufficient. Indian companies like Tata Group, Infosys, Reliance Industries, and Mahindra & Mahindra have shown that agility in response to external economic, political, and technological changes is critical to maintaining strategic relevance. Drawing on TRIZ (Theory of Inventive Problem Solving) introduced by Genrich Altshuller, we understand that systems develop unevenly. Different departments or business units in a company will evolve at different speeds, creating structural contradictions and imbalances. This resonates well with the Indian business ecosystem, where fast-growing startups and legacy enterprises both face challenges of functional misalignment, often leading to inefficiencies in decision-making or missed opportunities in innovation.

Altshuller's law for the Indian MNCs:

"An organization is composed of several subsystems (R&D, operations, marketing, finance, compliance, etc.), which evolve at different rates, potentially leading to internal misalignments. Without strategic coordination, the firm's ability to achieve its long-term goals is impaired."

A useful analogy in this context is to view Controlling as the nervous system of an organization. Just as the nervous system in a human body coordinates movement, senses, and responses, Controlling integrates planning, monitoring, and correction mechanisms across different departments, geographies, and hierarchical levels of Indian multinational corporations. Imagine the consequences of a delayed or improper nerve signal in the human body the same logic applies to a poorly designed or underdeveloped controlling system in a fast-scaling enterprise.

And just as a nervous system grows in complexity with the organism, Controlling must match the scale and complexity of the organization. For instance, an Indian conglomerate with operations in 10+ countries, diverse verticals, and multiple regulatory environments requires a controlling system far more advanced than that of a domestic mid-size business.

The proposed new model of Controlling for Indian MNCs integrates multiple functions across organizational levels and facilitates bi-directional communication (signal flow) between central management and operational units. It acts as an intelligent coordination system, responsive to both external shocks (like changes in international trade policy or supply chain disruptions) and internal inefficiencies (like process bottlenecks or project delays). However, signal processing and data aggregation in such systems present challenges. Relying on simplistic aggregation methods may hide "weak signals" early warnings of upcoming risks or overlooked opportunities. For example, minor customer complaints or small delays in supplier networks might be ignored if only average performance metrics are tracked. Hence, the Indian model of controlling must adopt fuzzy logic and AI-driven analytics to identify nuanced trends, prioritize actions, and prevent decision myopia.

CONCLUSIONS

In the context of India's growing global business presence and the increasing complexity of Indian multinational corporations (MNCs), there is a pressing need to redefine the concept of Controlling beyond traditional frameworks. Conventional models largely based on historical data and standardized systems fail to address the dynamic, culturally diverse, and rapidly evolving environments in which Indian MNCs operate today. This study highlights that the German model of Controlling, with its broader scope, future orientation, and integrated approach, is more suitable for the Indian business ecosystem compared to the narrower, compliance-focused US model. It emphasizes that markets are not homogenous, and assumptions valid in one country may not apply in another. The findings propose a new Controlling model tailored to Indian MNCs one that supports strategic decision-making, integrates local variations, and acts like a nervous system within the organization, sensing, responding, and coordinating across all functions and regions. Such a model enables Indian firms to align their global ambitions with internal efficiency and external adaptability, making Controlling a strategic tool for sustainability, agility, and long-term success.

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